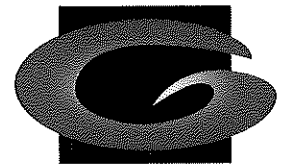


SACRAMENTO LOAVES & FISHES, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2018 AND 2017**



Gilbert Associates, Inc.
CPAs and Advisors

Relax. We got this.™

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Sacramento Loaves & Fishes, Inc.
Sacramento, California**

We have audited the accompanying financial statements of Sacramento Loaves & Fishes, Inc. (Loaves & Fishes), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Sacramento Loaves & Fishes, Inc.
Page two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Loaves & Fishes, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 6, 2019

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash	\$ 510,883	\$ 667,139
Certificates of deposit	855,724	804,123
Contributions and bequests receivable	162,129	320,658
Inventories	456,342	328,729
Prepaid expenses	<u>57,885</u>	<u>61,498</u>
Total current assets	2,042,963	2,182,147
INTEREST IN THE NET ASSETS OF MERCY FOUNDATION (Note 4)	246,599	339,088
PROPERTY AND EQUIPMENT, Net (Note 5)	<u>7,603,590</u>	<u>7,850,150</u>
TOTAL ASSETS	<u>\$ 9,893,152</u>	<u>\$ 10,371,385</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accrued expenses and other liabilities	\$ 88,601	\$ 91,182
Current portion of long-term debt	<u>45,912</u>	<u>117,451</u>
Total current liabilities	134,513	208,633
LONG-TERM DEBT, Net (Note 7)	<u>1,785,372</u>	<u>1,831,284</u>
TOTAL LIABILITIES	<u>1,919,885</u>	<u>2,039,917</u>
NET ASSETS:		
Without donor restrictions:		
Investment in property and equipment	5,772,306	5,901,415
Undesignated	<u>1,718,519</u>	<u>1,686,775</u>
Total without donor restrictions	7,490,825	7,588,190
With donor restrictions (Note 8)	<u>482,442</u>	<u>743,278</u>
Total net assets	<u>7,973,267</u>	<u>8,331,468</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,893,152</u>	<u>\$ 10,371,385</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2018 AND 2017

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>2018</u>	<u>2017</u>
REVENUES:		
Contributions and grants	\$ 5,990,185	\$ 5,637,422
Change in interest in the net assets of Mercy Foundation	281,846	236,386
Bequests	246,539	434,015
Rental income	62,166	61,646
Interest income	4,966	2,010
Other income	50,925	90,027
Net assets released from restrictions	<u>377,206</u>	<u>1,231,727</u>
Total revenues	<u>7,013,833</u>	<u>7,693,233</u>
EXPENSES:		
Program services:		
Food and guest services	5,093,741	4,641,312
Educational services	797,786	708,725
Residential services	336,051	361,286
Mental health services	<u>232,590</u>	<u>216,320</u>
Total program services	6,460,168	5,927,643
Supporting services:		
General and administrative	346,631	329,971
Fundraising	<u>304,399</u>	<u>276,281</u>
Total expenses (Note 1)	<u>7,111,198</u>	<u>6,533,895</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(97,365)</u>	<u>1,159,338</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and grants	208,859	122,816
Change in interest in the net assets of Mercy Foundation	(92,489)	(108,764)
Bequests		223,783
Net assets released from restrictions	<u>(377,206)</u>	<u>(1,231,727)</u>
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(260,836)</u>	<u>(993,892)</u>
INCREASE (DECREASE) IN NET ASSETS	(358,201)	165,446
NET ASSETS, Beginning of Year	<u>8,331,468</u>	<u>8,166,022</u>
NET ASSETS, End of Year	<u>\$ 7,973,267</u>	<u>\$ 8,331,468</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LOAVES & FISHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total
	Food and guest services	Educational services	Residential services	Mental health services	General and administrative	Fundraising		
Salaries, benefits and taxes	\$ 2,289,766	\$ 427,341	\$ 226,520	\$ 191,042	\$ 336,860	\$ 123,692	\$	\$ 3,595,221
Guest services, clothing and other supplies	1,040,222	136,649	8,621	1,248		3,103		1,189,843
Food	799,381	43,297	24,789	126		54		867,647
Depreciation	248,241	46,965	23,482	16,773				335,461
Occupancy and utilities	166,528	18,819	24,714	6,887	5,054	1,791		223,793
Printing and postage	34,089	22,159	406	382	1,116	163,780		221,932
Contributions	130,845	39,720	7,108	6,277		300		184,250
Supplies	93,737	2,403	4,506	557	2,574	1,748		105,525
Interest and bank charges	96,298	2,863	1,431	1,022				101,614
Liability insurance	53,535	10,128	5,064	3,617				72,344
Equipment, repairs and maintenance	48,316	12,946	3,379	1,188	700	525		67,054
Professional services	35,555	18,635	2,380	1,700				58,270
Autos	15,757	9,524			26	76		25,383
Public relations and advertising	12,478	1,773	886	633			6,935	22,705
Miscellaneous	28,993	4,564	2,765	1,138	301	2,395		40,156
Total	\$ 5,093,741	\$ 797,786	\$ 336,051	\$ 232,590	\$ 346,631	\$ 304,399	\$	\$ 7,111,198

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LOAVES & FISHES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total</u>
	<u>Food and guest services</u>	<u>Educational services</u>	<u>Residential services</u>	<u>Mental health services</u>	<u>General and administrative</u>	<u>Fundraising</u>		
Salaries, benefits and taxes	\$ 2,192,453	\$ 385,079	\$ 237,832	\$ 168,366	\$ 276,557	\$ 112,711	\$	\$ 3,372,998
Guest services, clothing and other supplies	714,537	130,711	2,800	1,272				849,320
Food	692,286	29,015	23,710	148				745,159
Depreciation	251,104	44,113	27,146	16,967				339,330
Occupancy and utilities	158,300	16,262	26,329	6,407	5,038	1,719		214,055
Printing and postage	26,638	17,775	396	400	1,151	144,488		190,848
Contributions	255,644	26,915	16,563	11,552				310,674
Supplies	84,666	2,860	5,315	663	2,809	509		96,822
Interest and bank charges	79,109	3,234	1,990	1,244				85,577
Liability insurance	48,564	8,532	5,250	3,281				65,627
Equipment, repairs and maintenance	52,515	10,167	6,825	1,988	691			72,186
Professional services	43,794	22,148	4,128	2,580	43,185			115,835
Autos	14,756	7,644	1	1	45	241		22,688
Public relations and advertising	4,363	970	330	185			15,245	21,093
Miscellaneous	22,583	3,300	2,671	1,266	495			31,683
Total	\$ 4,641,312	\$ 708,725	\$ 361,286	\$ 216,320	\$ 329,971	\$ 276,281	\$	\$ 6,533,895

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (358,201)	\$ 165,446
Reconciliation to net cash provided by operating activities:		
Depreciation	335,461	339,330
Donated investments	(23,814)	(43,254)
Proceeds from sale of donated investments	23,814	43,254
Changes in:		
Accounts receivable		11,700
Contributions and bequests receivable	158,529	(255,533)
Inventories	(127,613)	42,996
Prepaid expenses	3,613	4,789
Interest in the net assets of Mercy Foundation	92,489	108,764
Accrued expenses and other liabilities	(2,581)	3,421
Net cash provided by operating activities	<u>101,697</u>	<u>420,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(88,901)	(141,013)
Purchases of certificates of deposit	(854,606)	(551,726)
Proceeds from sale and maturity of certificates of deposit	<u>803,005</u>	<u>550,495</u>
Net cash used by investing activities	<u>(140,502)</u>	<u>(142,244)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	<u>(117,451)</u>	<u>(99,765)</u>
NET INCREASE (DECREASE) IN CASH	(156,256)	178,904
CASH, Beginning of Year	<u>667,139</u>	<u>488,235</u>
CASH, End of Year	<u>\$ 510,883</u>	<u>\$ 667,139</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable extinguished through long-term debt	<u>\$</u>	<u>\$ 282,670</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid - expensed	<u>\$ 81,167</u>	<u>\$ 66,249</u>
Interest paid - capitalized	<u>\$</u>	<u>\$ 12,770</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION

Sacramento Loaves & Fishes, Inc. (Loaves & Fishes) is a nonprofit, public benefit corporation dedicated to feeding the hungry and sheltering the homeless in Sacramento, California. Loaves & Fishes neither solicits nor accepts government funds. Following is a description of Loaves & Fishes' primary programs:

Food and Guest Services

Dining Room – Serves a hot lunch to guests 364 days of the year. On average, 600 to 800 meals are served daily. The dining room utilizes volunteers on a daily basis, comprised of individuals, churches, schools, and community based organizations. The daily meals are nutritionally based containing the proper balance of nutrients. Local vendors, food banks, and individuals contribute food on a regular basis to assist in feeding the homeless and hungry. Items used in the dining room that are not donated are purchased.

Friendship Park – Provides activities, information, and a safe environment for our guests during the day. Friendship Park provides a full service library reading room for guests to use for reading books, periodicals, writing and computer use. Friendship Park serves hot coffee, pastries and distributes breakfast items each morning and also provides sleeping bags, tarps, and warm coats to those in need. Friendship Park also performs memorial services for guests who have passed away.

Maryhouse – Provides daytime services to homeless women, children and single fathers. Provides home cooked breakfasts, showers, diapers, personal hygiene products and resources.

Jail Visitation – Provides services to Sacramento County inmates including sending letters to inmates and on behalf of inmates, providing personal toiletry kits, sweatshirts and backpacks, and bus passes to released inmates.

Brother Martin's Ministries (BMM) – A placement and orientation service that includes a complete weekly tour of the facilities for the public interested in volunteering at Loaves & Fishes. BMM staffs personnel responsible for building and yard maintenance of Loaves & Fishes' properties to serve guests in a clean, well maintained environment.

Animal Services – Houses guests' pets during the day while guests use services.

Washhouse – Provides shower and laundry services for men.

Advocacy – Advocates for housing and civil rights on behalf of the homeless.

Education Services

Mustard Seed – Provides instruction to children (ages 3-15), re-enrolls homeless children into public schools, arranges medical and dental visits, and provide Christmas gifts for children.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Residential Services

Sister Nora's Place – Provides long-term overnight shelter, including meals and case management, for up to 16 chronically homeless women with mental health issues.

Hope House – Houses annual Jesuit volunteers.

Mental Health Services

Genesis – Administers a full service mental health clinic, which provides counseling and referral services to guests.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. Loaves & Fishes reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Revenue recognition – Contributions, grants, and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Loaves & Fishes reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donated goods and services are recognized at the estimated fair value as of the date of donation or service.

Credit risk – Loaves & Fishes minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. Loaves & Fishes deposits held with financial institutions in excess of federal depository insurance limits was \$103,027 and \$179,455 as of December 31, 2018 and 2017, respectively. Loaves & Fishes has not experienced any losses in such accounts and management believes Loaves & Fishes is not exposed to any significant credit risk related to cash.

Certificates of deposit are stated at cost.

Inventories consist of food, clothing, gift cards and miscellaneous supplies. Inventories are stated at cost if purchased and fair market value if donated, using the first-in, first-out method.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Property and equipment are stated at cost if purchased or, if donated, at fair market value on the date of donation or unconditional promise and depreciated using the straight-line method over estimated useful lives of 5 to 30 years. Loaves & Fishes' policy is to capitalize purchases of \$2,500 or more.

Functional allocation of expenses – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and professional services which are allocated based on time and effort; benefits and taxes, which are allocated based on salaries; all other expenses are allocated based on estimated usage of resources.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes – Loaves & Fishes is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes. Loaves & Fishes applies the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements.

Recent Accounting Pronouncement – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Loaves & Fishes has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent events have been evaluated through March 6, 2019, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2018 that require recognition or disclosure in such financial statements.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Loaves & Fishes has \$1,265,349 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$409,625 and certificates of deposit of \$855,724. None of these financial assets are subject to donor restriction or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

As a policy, Loaves & Fishes will set aside financial assets to be available to meet operating expenses during the year. The assets are used during the down months of the year and are accessed as needed. Additionally, Loaves & Fishes maintains a line of credit with Merchants National Bank of \$300,000 which it can draw upon if needed. However, the line of credit has not been drawn upon for operations since 2005.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

4. INTEREST IN THE NET ASSETS OF MERCY FOUNDATION

The Mercy Foundation (Foundation) is a nonprofit organization that was established to support the works of the Sisters of Mercy. The Foundation solicits contributions for and holds funds on behalf of the Sisters of Mercy and its sponsored and supported ministries, including Loaves & Fishes as a support ministry. In accordance with professional standards, Loaves & Fishes and the Foundation are considered financially interrelated organizations. When the Foundation receives contributions for the benefit of Loaves & Fishes they recognize contribution revenue and temporarily restricted net assets. Loaves & Fishes recognizes their interest in the net assets of the Foundation which represents donor restricted contributions and pledges received by the Foundation for the benefit of Loaves & Fishes. Changes in the interest in net assets of the Foundation are shown as unrestricted when distributions are made from the Foundation to Loaves & Fishes unless restricted for a specific purpose by the original donor. Loaves & Fishes' interest in net assets of the Foundation are considered time restricted until distributed by the Foundation.

The change in the interest in net assets of the Foundation for the years ended December 31 includes the following:

	<u>2018</u>	<u>2017</u>
Change in interest in the net assets of the Foundation	\$ 189,357	\$ 127,622
Distributions – unrestricted	<u>(281,846)</u>	<u>(236,386)</u>
Net decrease in interest in the net assets of the Foundation	<u>\$ (92,489)</u>	<u>\$ (108,764)</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 9,482,908	\$ 9,411,652
Land	1,426,946	1,426,946
Equipment	650,640	641,495
Vehicles	224,352	224,352
Construction in progress	<u>10,000</u>	<u>1,500</u>
Total	11,794,846	11,705,945
Less accumulated depreciation	<u>(4,191,256)</u>	<u>(3,855,795)</u>
Property and equipment, net	<u>\$ 7,603,590</u>	<u>\$ 7,850,150</u>

6. LINE OF CREDIT

Loaves & Fishes has a \$300,000 revolving line of credit with a bank, secured by real estate in Sacramento County. The line calls for a variable interest rate at the bank's index rate (prime rate) less 0.50%. The bank's index rate was 4.50% and 4.25% at December 31, 2018 and 2017, respectively. Interest only payments are due monthly until maturity on August 15, 2019. There were no amounts outstanding on this line of credit at December 31, 2018 and 2017.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

7. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Promissory note totaling \$3,000,000 that allows for draws as necessary for construction of the new Friendship Park, secured by property at North C Street and North 12 th Street in Sacramento, payable in 19 monthly interest only payments, followed by monthly principal and interest payments totaling \$10,426, with interest calculated using the interest rate of 4.375%. All unpaid principal and interest is due May 1, 2027. Loaves & Fishes is required to maintain \$1,000,000 of working capital which is to be measured at fiscal year-end.	\$ 1,831,284	\$ 1,875,235
Note payable, secured by property at North 12 th Street in Sacramento, payable in monthly installments of \$6,250, including interest at 0.00%, with an initial maturity date of June 2019, but paid in full as of December 2018.	<u> </u>	<u>73,500</u>
Total	\$1,831,284	\$1,948,735
Less current portion	<u>(45,912)</u>	<u>(117,451)</u>
Long-term debt, net	<u>\$ 1,785,372</u>	<u>\$ 1,831,284</u>

Scheduled annual maturities of long-term debt are as follows:

Years ending December 31:

2019	\$ 45,912
2020	47,962
2021	50,103
2022	52,339
2023	54,675
Thereafter	<u>1,580,293</u>
Total	<u>\$ 1,831,284</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Time and purpose restriction – Interest in the net assets of Mercy Foundation	\$ 246,599	\$ 339,088
Time restricted for subsequent year's activity		223,783
Purpose restrictions:		
Mercy Corps volunteer program	76,000	57,000
Dining room	58,750	33,638
Mustard Seed	46,143	66,170
Maryhouse	21,765	11,664
Friendship Park operations	2,966	3,716
Other projects	<u>30,219</u>	<u>8,219</u>
Total	<u>\$ 482,442</u>	<u>\$ 743,278</u>

9. IN-KIND DONATIONS

During the years ended December 31, 2018 and 2017, Loaves & Fishes received the following non-cash donations of food, clothing, gift cards, and miscellaneous supplies that have been reflected as part of contributions and grants in the statements of activities:

	<u>2018</u>	<u>2017</u>
Clothing and miscellaneous supplies	\$ 1,414,809	\$ 953,730
Food	605,407	546,552
Gift cards	<u>13,063</u>	<u>12,855</u>
Total	<u>\$ 2,033,279</u>	<u>\$ 1,513,137</u>